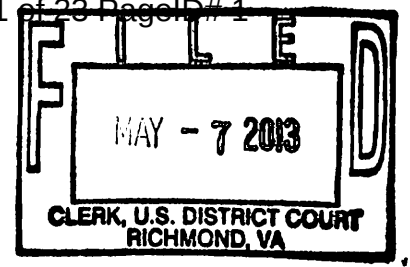


IN THE UNITED STATES DISTRICT COURT  
FOR THE EASTERN DISTRICT OF VIRGINIA  
Richmond Division



MARTY COLE, Individually and on Behalf of )  
All Others Similarly Situated, )

Plaintiff, )

vs. )

STAR SCIENTIFIC, INC., ROCK CREEK )  
PHARMACEUTICALS, INC., PAUL L. )  
PERITO, JONNIE R. WILLIAMS, SR., PARK )  
A. DODD, III and CURTIS WRIGHT, )

Defendants. )

Civil Action No.: 3:13CV287

CLASS ACTION

COMPLAINT FOR VIOLATION OF THE  
FEDERAL SECURITIES LAWS

DEMAND FOR JURY TRIAL

Plaintiff, Marty Cole, by counsel, and for his Complaint alleges as follows:

### INTRODUCTION

1. This is a securities class action on behalf of all persons who purchased or otherwise acquired the publicly traded securities of Star Scientific, Inc. ("Star Scientific" or the "Company") between October 31, 2011 and March 18, 2013, inclusive (the "Class Period"), against Star Scientific and certain of its officers and/or directors for violations of the Securities Exchange Act of 1934 (the "1934 Act"). These claims are asserted against Star Scientific and certain of its officers and/or directors who made materially false and misleading statements during the Class Period in press releases, analyst conference calls, and filings with the SEC.

2. Star Scientific is engaged in the manufacture and production of dietary supplements. The Company's operating subsidiaries manufacture, distribute and sell consumer products and dietary supplements.

3. Specifically, throughout the Class Period defendants violated the federal securities laws by disseminating false and misleading statements to the investing public in connection with the

Company's business and operations. As a result of defendants' false statements, Star Scientific's stock traded at artificially inflated prices during the Class Period, reaching a high of \$4.99 per share on July 3, 2012.

4. On January 23, 2013, *The Street* issued an article entitled "Star Scientific's Made-Up, Misleading Relationship With Johns Hopkins." The article contended that Star Scientific misled its investors concerning Johns Hopkins University's ("Johns Hopkins") involvement in the clinical testing of Star Scientific's nutritional supplement anatabine. Anatabine is the active ingredient in Anatabloc<sup>TM</sup>, an anti-inflammation joint supplement.

5. As a result of this news, Star Scientific's shares dropped \$0.31 per share, to close at \$2.33 per share – a one-day decline of nearly 12% on volume of 6.1 million shares.

6. On March 18, 2013, Star Scientific filed its annual report on Form 10-K with the SEC for its fiscal year ended December 31, 2012. In the annual report, the Company disclosed that it was being investigated by the federal government. According to the Company, the investigation was focused on transactions involving the Company's securities, including private placements and related-party transactions since 2006. The Form 10-K stated in part:

***We are responding to subpoenas in a government investigation.***

In late January and February of this year, our company, directors and others received subpoenas from the United States Attorney's Office for the Eastern District of Virginia seeking documents. Our present understanding is that the investigation is principally focused on transactions involving our company's securities including certain private placements and related party transactions since 2006. We are responding to the subpoenas and intend to cooperate fully with the investigation. In addition, we engaged outside counsel (the international law firm of Chadbourne & Parke, LLP) to conduct an internal investigation of these matters.

We are unable to predict the duration of the internal investigation or the United States Attorney's investigation. No conclusion can be drawn at this time as to outcome, or whether these matters will result in any materially adverse impact on our company. While the investigation is pending, we intend to remain focused on our core business activities, including expanding sales of our Anatabloc® product and continuing clinical and related research on our current development schedule. We do not intend, and disclaim any obligation, to provide continuing or updated disclosure

regarding these requests and inquiries absent definitive developments unless otherwise required by law.

7. On this news, Star Scientific's stock dropped \$0.34 per share to close at \$1.64 per share on March 19, 2013, a one-day decline of 17% on volume of 6.27 million shares.

8. The true facts, which were known by the defendants but concealed from the investing public during the Class Period, were as follows:

(a) Star Scientific had misled investors about the true nature and extent of Johns Hopkins' involvement in the clinical testing of Anatabine.

(b) Star Scientific had been engaging in improper private placement and related-party transactions since at least 2006.

(c) Star Scientific had concealed the true nature and extent of its liquidity condition.

9. As a result of defendants' false statements, Star Scientific stock traded at artificially inflated levels during the Class Period. However, after the above revelations seeped into the market, the Company's shares were hammered by massive sales, sending them down 67% from their Class Period high.

### **JURISDICTION AND VENUE**

10. The claims asserted herein arise under and pursuant to §§ 10(b) and 20(a) of the 1934 Act (15 U.S.C. §§ 78j(b) and 78t(a)) and Rule 10b-5 promulgated thereunder (17 C.F.R. § 240.10b-5) by the SEC. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. § 1331 and § 27 of the 1934 Act (15 U.S.C. § 78aa).

11. Venue is proper in this District pursuant to § 27 of the 1934 Act and 28 U.S.C. § 1391(b), as many of the acts and practices complained of herein occurred in substantial part in this District. Venue is proper in the Richmond Division pursuant to Local Civil Rule 3.

12. Star Scientific maintains its principal executive offices at 4470 Cox Road, Suite 110, Glen Allen, Virginia 23060. Certain of the acts and conduct complained of herein, including dissemination of materially false and misleading information to the investing public, occurred in this District.

13. In connection with the acts alleged in this complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications and the facilities of the national securities markets.

### **PARTIES**

14. Plaintiff Marty Cole purchased the publicly traded securities of Star Scientific during the Class Period as set forth in the certification attached hereto and was damaged as the result of defendants' wrongdoing as alleged in this complaint.

15. Defendant Star Scientific is a specialty pharmaceutical company engaged in the development, manufacture and marketing of bio-equivalent pharmaceutical products in addition to the development of branded products.

16. Defendant Rock Creek Pharmaceuticals, Inc. ("Rock Creek") is a wholly-owned subsidiary of Star Scientific. Rock Creek currently manufactures and sells two nutraceutical dietary supplements designed to promote the maintenance of a healthy metabolism: Anatabloc, for anti-inflammatory support, and CigRx, for assistance in fighting the urge to smoke cigarettes.

17. Defendant Paul L. Perito ("Perito") is, and at all relevant times was, the Company's President, Chief Operating Officer ("COO") and Chairman of Star Scientific's Board of Directors. Defendant Perito is also Rock Creek's Chairman and Chief Executive Officer ("CEO").

18. Defendant Jonnie R. Williams, Sr. ("Williams") is, and at all relevant times was, the Company's CEO.

19. Defendant Park A. Dodd, III (“Dodd”) is, and at all relevant times was, the Company’s Chief Financial Officer (“CFO”).

20. Defendant Curtis Wright (“Wright”) is, and at all relevant times was, Rock Creek’s Senior Vice President and Medical/Clinical Director.

21. The defendants named above in ¶¶17-20 are referred to herein as the “Individual Defendants.”

22. The Individual Defendants, because of their positions with the Company, possessed the power and authority to control the contents of Star Scientific’s quarterly reports, press releases and presentations to securities analysts, money and portfolio managers and institutional investors, *i.e.*, the market. They were provided with copies of the Company’s reports and press releases alleged herein to be misleading prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Because of their positions with the Company, and their access to material non-public information available to them but not to the public, the Individual Defendants knew that the adverse facts specified herein had not been disclosed to and were being concealed from the public and that the positive representations being made were then materially false and misleading. The Individual Defendants are liable for the false statements pleaded herein.

#### **FRAUDULENT SCHEME AND COURSE OF BUSINESS**

Defendants are liable for: (i) making false statements; or (ii) failing to disclose adverse facts known to them about Star Scientific. Defendants’ fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of Star Scientific publicly traded securities was a success, as it: (i) deceived the investing public regarding Star Scientific’s prospects and business; (ii) artificially inflated the prices of Star Scientific publicly traded securities; and

(iii) caused plaintiff and other members of the Class to purchase Star Scientific publicly traded securities at inflated prices.

### **BACKGROUND**

24. Star Scientific produces products that assist in maintaining a healthy metabolism and lifestyle. Through the Company's wholly-owned subsidiary, Rock Creek, it engages in the development, manufacture, sale and marketing of several "nutraceutical" dietary supplements designed to promote the maintenance of a healthy metabolism. The Company's two popular brands are Anatabloc, for anti-inflammatory support, and CigRx, its tobacco alternative. The Company also develops other "nutraceutical" dietary supplements and pharmaceutical products, particularly products that have a botanical-based component and that are designed to treat a range of neurological conditions, including Alzheimer's disease, Parkinson's disease, schizophrenia, depression and tobacco dependence.

25. Rock Creek, a wholly-owned subsidiary of Star Scientific, manufactures and sells two nutraceutical dietary supplements designed to promote the maintenance of a healthy metabolism: Anatabloc, for anti-inflammatory support, and CigRx, for assistance in fighting the urge to smoke cigarettes.

### **DEFENDANTS' FALSE AND MISLEADING STATEMENTS ISSUED DURING THE CLASS PERIOD**

26. On October 31, 2011, the Company and Rock Creek issued a press release entitled "Rock Creek Pharmaceuticals Announces Completion of Medical Conferences on Anatabloc™ Research, Comments on Research Presentation at American Thyroid Association Annual Meeting," which stated in part:

Rock Creek Pharmaceuticals, a wholly owned subsidiary of Star Scientific, Inc. today announced the second presentation of research findings related to its Anatabloc™ dietary supplement. A poster presentation, titled "*Anatabine, a Tobacco Alkaloid, Ameliorates Disease in a Mouse Model of Thyroiditis*", was made at the 81st annual meeting of the American Thyroid Association in Indian Wells, CA. The

four authors, all researchers at the Johns Hopkins University School of Medicine, included Paul W. Ladenson, MD and Patrizio Caturegli, MD. The presentation described the positive effect of anatabine supplementation in decreasing the incidence and severity of thyroiditis in animal models of the human disease. Anatabine is an alkaloid found in plants in the Solinacea family, such as green peppers, green tomatoes and eggplant.

Rock Creek also commented that research underlying the October 27 presentation has been one of the topics at three recent medical conferences hosted by the company for physicians and allied healthcare practitioners. The first, held on October 18 in Richmond, VA featured presentations by Drs. Ladenson and Caturegli on their experimental research on autoimmune thyroiditis, followed by discussion. Michael Mullan, MD, Ph.D., CEO of the Roskamp Institute, also presented on his research on anatabine in mouse models of Alzheimer's disease, which was published recently in the European Journal of Pharmacology.

Two other conferences have been held during the past week: the second conference was hosted in Flint, Michigan on October 22. Dale Wilson, MD, one of the principal investigators in the clinical trial being conducted in the Flint area, summarized the design of the ongoing study in Michigan after presentations on the research described above. There also was general discussion of the safety profile of anatabine, the presumed mechanism of action, and ongoing clinical research. The third conference, held October 27 in Newport Beach, California, also summarized the research to date, the status of the ongoing human studies, and the emerging safety profile of Anatabloc™. Approximately 150 physicians and allied health practitioners from southern California attended this conference.

Curtis Wright, MD, MPH, Senior Medical Officer for Rock Creek Pharmaceuticals said, "The response to Anatabloc from the healthcare community has been quite positive, as evidenced by robust participation in question-and-answer sessions during the conferences. In addition, requests for samples, products and research support are increasing. The research presentations make clear that exciting potentials lie ahead as we continue to explore the relationship between anatabine and inflammation."

27. On November 9, 2011, Star Scientific issued a press release announcing its third quarter 2011 financial results. The Company reported net sales of \$0.4 million and a net loss of \$1.8 million for the third quarter of 2011. The release stated in part:

Jonnie R. Williams, Star Scientific's CEO, commented, "We are pleased with the pace of sales of our dietary supplements, which increased approximately 35% in October from the previous month, and we anticipate that as we expand the marketing program for Anatabloc™ we will see continued growth. The response to our initial physician conferences, for example, has been very positive. We want to continue to expand all potentials for Anatabloc™ and for CigRx®." The company recently completed an initial round of conferences to introduce Anatabloc™ to physicians and

allied health care providers, and currently is in the process of scheduling a second round of meetings. The Flint study, which is examining the effect of anatabine on chronic inflammation in subjects with elevated c-reactive protein (CRP) levels, is ongoing at several sites and continues to enroll subjects. Rock Creek Pharmaceuticals also will conclude at the end of November a clinical trial with approximately 100 smokers, which is evaluating the role that Anatabloc™ can play in lowering CRP levels and addressing subjects' urge to light a cigarette.

As the company indicated in a recent press release, research conducted at the Johns Hopkins University School of Medicine, which examined anatabine and thyroiditis in an animal model, was presented on October 27 at the 81st annual meeting of the American Thyroid Association. Earlier in October the European Journal of Pharmacology published research conducted by the Roskamp Institute that examined the accumulation of an abnormal substance, called A-beta, which leads to amyloid formation and damage to brain tissue. That research showed that when anatabine is given to mice vulnerable to accumulation of amyloid, treatment with anatabine lowered brain levels of both A-beta (1-40) and A-beta (1-42).

28. On November 9, 2011, Star Scientific filed with the SEC its Form 10-Q for its third quarter ended September 30, 2011, which included the same results previously reported in the Company's November 9, 2011 press release. Defendants Williams and Dodd each signed internal control certifications affirming that they were responsible for designing "such internal control over financial reporting, or [had] caused such internal control over financial reporting to be designed under [their] supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles," and that they had reported to the board and auditors "[a]ll significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information."

29. On February 9, 2012, Star Scientific issued a press release entitled "Rock Creek Pharmaceuticals Announces Initiation of Second Multi-Site Clinical Trial; Protocol to Study an Anatabloc™ Formulation and Thyroid Health," which stated in part:

Star Scientific subsidiary, Rock Creek Pharmaceuticals, is pleased to announce IRB approval, and successful identification and selection of five clinical sites in Texas,



Illinois and Florida for its upcoming “ASAP” (Anatabloc Supplementation Autoimmune Prevention) thyroid study. The 120-patient study is titled “A Multi-Site, Double-Blind, Randomized, Placebo-Controlled, Parallel-Group Trial to Evaluate the Safety and Potential Effects of the Dietary Supplement Anatabine on Antithyroid Autoantibodies and Thyroid Function in Subjects with Autoimmune Thyroiditis.” The study’s purpose is to investigate the potential role for nutritional supplementation with an Anatabloc™ formulation in supporting immune health. Rock Creek developed the dietary supplement, brand-named Anatabloc™, which is available for purchase via a dedicated product website and through GNC’s Internet storefront.

The nutritional study, which focuses on individuals at risk for inflammatory damage to the thyroid (Hashimoto’s thyroiditis), was developed by a team of respected researchers to ensure the scientific quality of the evidence obtained in the study. The ASAP study is expected to be conducted during spring and summer 2012, and an interim look at the data currently is projected for mid-year. This is the second large, multi-site, double-blind, placebo-controlled study involving an Anatabloc™ formulation: the Roskamp Institute is conducting the currently enrolling Flint study at sites in Michigan and Florida. The company anticipates a mid-year look at interim data from that study as well.

Rock Creek last week announced its partnership with GNC for Anatabloc™ purchasing through GNC’s web-based storefront. Anatabloc™, a dietary supplement, was designed to provide anti-inflammatory support by leveraging the body’s own process in combination with supplementation from the product’s active dietary ingredients, anatabine citrate and Vitamins A and D3. Excessive inflammation is associated with a variety of autoimmune conditions, as well as athletic and work-out injuries. Anatabloc™ was introduced in August 2011 through a dedicated product website, and shortly after launch it also became available for purchase via the Amazon.com portal.

30. On March 15, 2012, Star Scientific issued a press release announcing its fourth quarter and year-end 2011 financial results. The Company reported net sales of \$0.91 million for the fourth quarter of 2011. Additionally, the Company reported net sales of \$1.73 million and a net loss of \$38.0 million for the year ended December 31, 2011.

31. On March 15, 2012, Star Scientific filed with the SEC its annual report on Form 10-K for its year ended December 31, 2011, which included the same results previously reported in the Company’s March 15, 2012 press release. Defendants Williams, Dodd and Perito each signed the Form 10-K, and defendants Williams and Dodd signed internal control certifications similar to those quoted above. The Form 10-K stated in part:

Through our company's Rock Creek subsidiary, we are pursuing the development of other anatabine based dietary supplements as well as botanical based products that would utilize certain MAO agents in tobacco to treat a range of neurological conditions, and products for the treatment of tobacco dependence. Rock Creek operates pursuant to a sublicense under our exclusive license with Regent Court, which includes patents for the use of MAO inhibitors found in tobacco to treat various neurological conditions.

In 2011 and 2012 our Rock Creek subsidiary, the Roskamp Institute and researchers at John Hopkins University, completed and reported on a number of studies designed to assess the ability of our anatabine citrate compound to lower chronic inflammation in a variety of pre-clinical and clinical settings. One study conducted by the Roskamp Institute and reported in the Journal of European Pharmacology showed that anatabine citrate lowered levels of a precursor protein associated with amyloid production both in the test tube and when administered to mice vulnerable to accumulation of amyloid which, at excessive levels, damages brain tissue. Also, researchers from Johns Hopkins presented a poster at the annual meeting of the American Thyroid Association. The reported research showed the positive effect of anatabine citrate supplementation in decreasing the incidence and severity of thyroiditis in animal models of the human disease. In February 2012, Rock Creek reported research on the first clinical trial demonstrating that Anatabloc® lowers chronic inflammation measured by CRP levels in the blood. The reported results were obtained in connection with an in-house study undertaken by Rock Creek that involves a group of smokers who have been using Anatabloc® on an extended basis.

32. On May 10, 2012, Star Scientific issued a press release announcing its first quarter 2012 financial results. The Company reported net sales of \$1.2 million and a net loss of \$5.2 million for the quarter ended March 31, 2012. The release stated in part:

Paul L. Perito, Chairman, President, and COO of Star Scientific commented, "We are pleased to report continued improvement of sales of our dietary supplements and a positive gross profit for the first quarter of 2012. Those increased sales have been driven primarily by consumer acceptance of our Anatabloc® dietary supplement. Since the introduction of Anatabloc® in August 2011, our dietary supplement sales have increased month to month; that trend has continued through the first quarter and for April 2012. With the expanded rollout of our product in GNC retail and franchise stores and expanded marketing efforts, we anticipate that we will continue to see improved sales performance."

33. On May 10, 2012, Star Scientific filed with the SEC its Form 10-Q for its first quarter ended March 31, 2012, which included the same results previously reported in the Company's May

10, 2012 press release. Defendant Dodd signed the Form 10-Q, and defendants Williams and Dodd each signed internal control certifications similar to those quoted above.

34. On June 27, 2012, Star Scientific issued a press release entitled “Star Scientific Announces Noteworthy Anatabloc® Scientific Presentation at ENDO 2012,” which stated in part:

Star Scientific, Inc. announced today that the results of a successful animal study supporting the potential thyroid benefit of nutritional supplementation with Rock Creek Pharmaceuticals’ anatabine supplement, Anatabloc®, were presented on Tuesday, June 26, in Houston, Texas, at ENDO 2012, the annual international meeting of the Endocrine Society.

The independently funded research team at Johns Hopkins conducted and completed a study of anatabine nutritional supplementation in a mouse model of autoimmune thyroiditis, entitled “Anatabine, a Tobacco Alkaloid, Reduces Disease Incidence and Severity in a Mouse Model of Autoimmune Thyroiditis.”

Studies performed in the immunopathology laboratory of Dr. Patrizio Caturegli utilized female mice, placing half of them on dietary supplementation (drinking water) with anatabine, and the other half on plain water. All mice were injected with mouse thyroglobulin in Freund’s adjuvant, a procedure that reliably induces autoimmune thyroiditis with histopathological features and thyroid gland dysfunction similar to Hashimoto’s thyroiditis in humans.

Anatabine dietary supplementation significantly reduced the incidence and severity of experimental autoimmune thyroiditis. Thirty-one of thirty-two control mice developed thyroiditis (97%), as compared with twenty-one of twenty-nine (72%) anatabine treated mice ( $P < 0.007$ ). More importantly, the anatabine treated mice that did develop thyroiditis had lower histopathological severity of inflammation, lower anti-thyroid antibody levels early in their disease, and lesser declines in serum thyroxine.

The results of the full study, which was preliminarily reported in a poster presentation last fall at the Annual Meeting of the American Thyroid Association, led Dr. Paul W. Ladenson, Director of Endocrinology and Metabolism at Johns Hopkins, to comment, “Our finding that anatabine reduces the incidence and severity of autoimmune thyroiditis in this mouse model justifies human studies of whether this nutritional supplement may be effective in preserving thyroid health in people with Hashimoto’s thyroiditis. Consequently, a human trial to test this hypothesis (the ASAP Thyroid Study) was designed and is now being carried out.”

Dr. Curtis Wright, Senior Vice President and Medical/Clinical Director of Star Scientific’s wholly owned subsidiary Rock Creek Pharmaceuticals Inc., stated, “We started our research with the simple goal of developing a useful nutritional supplement. The possibility, now supported by external research findings that one of our products could help maintain thyroid health, is very exciting to us, and is ample

reward for the efforts of Rock Creek's research team in designing and conducting the ASAP Thyroid Study with the oversight assistance of an independent scientific committee. The current impressive results achieved by the Johns Hopkins team strongly support the first look at the thyroid data in man, which we anticipate will be available in the third quarter."

35. On July 3, 2012, Star Scientific common stock reached its Class Period high of \$4.99 per share.

36. On July 25, 2012, based on the positive representations by defendants, Dr. John Faessel issued an article on *Seeking Alpha* entitled "New Peer Review Credibility From Johns Hopkins Could Drive Star Scientific Shares Higher." The article provided in part:

Hypothesis no longer: Johns Hopkins scientists now believe they know why Star Scientific's (CIGX) anatabine compound Anatabloc works. Newly presented thyroid research from the peer reviewed journal *Endocrinology* makes the case. The implications could drive shares sharply higher as peer reviewed substantiation brings new heights of credibility to the science. See below for context and amplification.

This is important breakthrough news from Johns Hopkins University School of Medicine (where the thyroid research and studies have been funded by a grant from the Walton Family Foundation), so slip on your science hat and stay with me on this. The implications from the medical community will now carry new weight as they will be able to *officially* discern the kind of conditions that anatabine/Anatabloc could be effective in treating.

Autoimmune (so-called "Hashimoto") thyroiditis, first reported in 1912 and considered a rarity until the mid-1950s, has now become the most common of over 100 autoimmune diseases. . . . A Google search of thyroid disease brought up 7,500,000 results.

What is especially interesting is that these autoimmune conditions are precisely those Anatabloc seems to benefit. The multitude of users of Anatabloc already know that it works - so now it becomes "official." Get the picture? Read on.

I have been following and writing about CIGX for over two years, and the shares have gone up over this time frame from just over \$1.00 to Friday's close of \$4.05 (the shares traded above \$5.00 last year and more recently in early July). Obviously the stock has been a big winner, and the science supporting the story has developed to ever more established heights of the 'nigh astonishing': it has progressed from the genesis of discovery to testing, to peer review, to more testing and now to explanation in *the* leading journal *Endocrinology* as to "why" it's believed to work.

Human studies remain to be announced; however, Star has said in this regard: "The current impressive results achieved by the Johns Hopkins team strongly support

the first look at the thyroid data in man, which we anticipate will be available in the third quarter."

It should be noted that nonbelievers are plentiful regarding the shares of CIGX, as there is a big short interest of 23,622,933 shares, a large percentage of which has been around for well over two years. The number of shares short is up 1,789,378 shares from the last reporting period of two weeks prior. My comment is that much has changed over the last year with the above mentioned impressive news related to anatabine / Anatabloc and it's now a whole new ball game. Shorts should be worried as the remarkable science continues to advance.

37. On August 9, 2012, Star Scientific issued a press release announcing its second quarter 2012 financial results. The Company reported net sales of \$1.6 million and a net loss of \$8.0 million for the second quarter ended June 30, 2012.

38. On August 9, 2012, Star Scientific filed with the SEC its Form 10-Q for its second quarter ended June 30, 2012, which included the same financial results previously reported in the Company's August 9, 2012 press release. Defendant Dodd signed the Form 10-Q, and defendants Williams and Dodd signed internal control certifications similar to those quoted above.

39. On October 9, 2012, Dr. John Faessel again issued positive statements on *Seeking Alpha* concerning Johns Hopkins' involvement with Anatabloc. The article provided in part:

Very soon, IMHO, the Star Scientific landscape will change dramatically as Johns Hopkins is about to release their nine city study on the effects of Anatabine / Anatabloc on thyroid disease. Un-blinding, compilation and analysis of their study results are likely near or already finished by their contract research organization [CRO] prior to Johns Hopkins receiving and publishing the results.

There is much riding on these scientific findings as naysayers (shorts) and the true believers (that would include me) are so dramatically on the different sides of the "story" that's tied to the beneficial effects of Anatabine / Anatabloc. The naysayers / shorts have continually increased their mega million \$ bet saying the compound doesn't work – or it's a scam – or the inventory levels are increasing or the company needs more money or the CEO wears a black hat and rides a black horse or whatever. Interestingly, they never question the results of the Johns Hopkins or Roskamp science but they are all-over the balance sheet and peripheral issues.

40. On November 9, 2012, Star Scientific issued a press release announcing its third quarter 2012 financial results. The Company reported net sales of \$1.7 million and a net profit of \$0.4 million for the third quarter ended September 30, 2012. The release stated in part:

Paul L. Perito, Chairman, President, and COO of Star Scientific commented, "We are pleased with the robust Anatabloc® sales, which have grown quarter to quarter. We are equally buoyed by the fact that because there is a GNC corporate or franchise store (approximately 4,000 nationwide) within five miles or less of 95% of all Americans, access to Anatabloc® is now literally within the reach of every American. Our iconic Brand Ambassador, professional golfer Fred Couples, continues to be featured in radio and TV advertising nationwide, personalizing the message of Anatabloc®'s worthiness to those embracing a healthy and active lifestyle."

41. On November 9, 2012, Star Scientific filed with the SEC its Form 10-Q for its third quarter ended September 30, 2012, which included the same financial results previously reported in the Company's November 9, 2012 press release. Defendant Dodd signed the Form 10-Q, and defendants Williams and Dodd each signed internal control certifications similar to those quoted above. The Form 10-Q stated in part:

As of September 30, 2012 the Company had a working capital surplus of approximately \$10.2 million, which included cash of approximately \$9.5 million. Cash needs during the next twelve months are primarily for funding the Company's operations in light of continued operating losses.

\* \* \*

While the Company may seek to obtain funds in the future through debt financing, there may be limitations on its ability to obtain debt financing given its recurring operational losses. Moreover, its ability to raise future financings on terms acceptable to it (including through the exercise of outstanding warrants) will depend on a number of factors, including the performance of the Company's stock price and its operational performance. Any equity financing will be dilutive to the Company's existing shareholders.

The Company expects to have sufficient funding to sustain operations into the first quarter 2013. Depending upon sales levels, market conditions and the price of its common stock, it may be necessary for the Company to seek additional funds. There can be no assurance that the Company will be successful in obtaining such funding at commercially reasonable terms.

42. On this news, Star Scientific's stock declined \$0.70 per share to close at \$1.86 per share on November 12, 2012, on volume of 10.6 million shares.

43. On January 23, 2013, *The Street* issued an article entitled "Star Scientific's Made-Up, Misleading Relationship With Johns Hopkins." The article contended that Star Scientific misled its investors concerning Johns Hopkins' involvement in the clinical testing of Star Scientific's nutritional supplement anatabine. The article stated in part:

Manti Te'o isn't alone in concocting imaginary relationships. So, too, is Star Scientific, which has misled investors about the involvement of Johns Hopkins University in the clinical testing of the company's retail nutritional supplement anatabine.

Star Scientific and its Internet stock promoters want investors to believe that Johns Hopkins has been actively involved with, and even supportive of anatabine's clinical development. The benefit to Star Scientific is obvious: Johns Hopkins is well-known and respected, so the school's academic imprimatur lends scientific credibility to anatabine.

Except Johns Hopkins has no official involvement with Star Scientific or anatabine. That includes Star's subsidiary Rock Creek Pharmaceuticals, according to a Johns Hopkins School of Medicine spokesperson.

"The Antabloc Supplementation Autoimmune Prevention [ASAP] clinical study was not conducted at or approved by Johns Hopkins," Johns Hopkins' Stephanie Desmon said via email.

Star reported initial interim results from the ASAP study of anatabine as a potential treatment for thyroid disease on Jan. 7. The company claims the study succeeded but failed to disclose any real data. Star's press release included a promotional quote about anatabine from Dr. Paul Ladenson, described as a "senior endocrinological consultant" for the study.

Ladenson's real job is director of the Division of Endocrinology and Metabolism at Johns Hopkins School of Medicine. He's a thyroid disease expert. Why did Star Scientific omit Ladenson's academic affiliation from its Jan. 7 press release? Likely because as Desmon made clear, Ladenson's role in Star Scientific's anatabine thyroid disease study had nothing to do with Johns Hopkins.

Star Scientific paid Ladenson for his consulting work, which apparently includes offering this assessment of the anatabine thyroid study:

Data from this rigorously conducted, placebo-controlled, double blind trial show that anatabine-treated subjects had progressive decreases in

circulating thyroglobulin antibody levels, which became significant by the end of the trial. Current treatment for autoimmune thyroiditis is limited to end-stage disease when irreversible gland damage necessitates lifelong thyroid hormone replacement. The prospect of a novel nutritional or pharmaceutical intervention that could preserve thyroid health represents an encouraging advance. Further clinical studies are now warranted.

Asked to comment on whether Johns Hopkins, as Ladenson's employer, approved his anatabine statement, Desmon responded:

"We do have guidelines about such things and he [Ladenson] is in violation here." Johns Hopkins has started an inquiry into the matter, Desmon added.

Johns Hopkins would not make Ladenson available to comment. Star Scientific did not respond to an email requesting comment.

Dr. Patrizio Caturegli, also a professor at Johns Hopkins Medical School and a paid consultant to Star Scientific, co-authored a paper last year with Ladenson in which mice were treated with anatabine. Star Scientific publicizes the findings of Caturegli's paper without disclosing the company's financial relationship with the authors.

As it stands, there is no science backing Star's claims that anatabine reduces inflammation, relieves pain or treats Alzheimer's, thyroid disease, multiple sclerosis, traumatic brain injury or other auto-immune diseases [These are all medical claims Star makes or insinuates with its constant anatabine promotions.]

Anatabine is not FDA approved for anything, but thanks to lax rules and generous loopholes, Star is able to sell the nutritional supplement over the Internet and at GNC retail outlets. What Star hasn't been able to do is convince people to buy anatabine. Sales are minimal, totaling just \$1.7 million in the last reported quarter.

Which is where the Johns Hopkins connection comes into play. Star wants investors and the general public to believe anatabine is a drug capable of curing all sorts of diseases. The marketing message is simple: If Johns Hopkins believes in anatabine, you should too.

Internet stock promoter Dr. John Faessel (he's a dentist) embraces Star's misleading marketing message and runs with it. In two columns posted recently on Seeking Alpha – both bullish on Star Scientific – Faessel refers repeatedly to the "successful Rock Creek/Johns Hopkins human trials of anatabine."

Wrong. Johns Hopkins had no involvement in the anatabine trial.

Gilford Securities analyst Otis Bradley also plays along with the deception. In a recent research note, Bradley writes, "The [anatabine] thyroid research has been done by the John Hopkins University School of Medicine, certainly one of the most preeminent medical institutions in the world, under the lead of Paul Ladenson, chief endocrinologist and one of the preeminent leaders in the world in his profession."



Wrong again. Star Scientific is solely in charge of the anatabine thyroid study, which recruited patients from nine private U.S. clinics, none with academic credentials. Ladenson may be an expert on thyroid disease but he's being paid by Star Scientific.

Star Scientific also pays golfer Fred Couples to endorse anatabine. At this point, there's very little to distinguish Couple's advertising pitch and Ladenson's consulting work.

44. As a result of this news, Star Scientific's stock dropped \$0.31 per share, to close at \$2.33 per share – a one-day decline of nearly 12% on volume of 6 million shares.

45. On March 18, 2013, Star Scientific filed its annual report on Form 10-K with the SEC for its fiscal year ended December 31, 2012. In the annual report, the Company disclosed that it was being investigated by the federal government. According to the Company, the investigation was focused on transactions involving the Company's securities, including private placements and related-party transactions since 2006. The Form 10-K stated in part:

***We are responding to subpoenas in a government investigation.***

In late January and February of this year, our company, directors and others received subpoenas from the United States Attorney's Office for the Eastern District of Virginia seeking documents. Our present understanding is that the investigation is principally focused on transactions involving our company's securities including certain private placements and related party transactions since 2006. We are responding to the subpoenas and intend to cooperate fully with the investigation. In addition, we engaged outside counsel (the international law firm of Chadbourne & Parke, LLP) to conduct an internal investigation of these matters.

We are unable to predict the duration of the internal investigation or the United States Attorney's investigation. No conclusion can be drawn at this time as to outcome, or whether these matters will result in any materially adverse impact on our company. While the investigation is pending, we intend to remain focused on our core business activities, including expanding sales of our Anatabloc® product and continuing clinical and related research on our current development schedule. We do not intend, and disclaim any obligation, to provide continuing or updated disclosure regarding these requests and inquiries absent definitive developments unless otherwise required by law.

46. On this news, Star Scientific's stock dropped \$0.34 per share to close at \$1.64 per share on March 19, 2013, a one-day decline of 17% on volume of 6.27 million shares.

47. The true facts, which were known by the defendants but concealed from the investing public during the Class Period, were as follows:

(a) Star Scientific had misled investors about the true nature and extent of Johns Hopkins' involvement in the clinical testing of Anatabine.

(b) Star Scientific had been engaging in improper private placement and related-party transactions since at least 2006.

(c) Star Scientific had concealed the true nature and extent of its liquidity condition.

48. As a result of defendants' false statements, Star Scientific stock traded at artificially inflated levels during the Class Period. However, after the above revelations seeped into the market, the Company's shares were hammered by massive sales, sending them down 67% from their Class Period high.

### **LOSS CAUSATION**

49. During the Class Period, as detailed herein, the defendants made false and misleading statements and engaged in a scheme to deceive the market and a course of conduct that artificially inflated the prices of Star Scientific publicly traded securities and operated as a fraud or deceit on Class Period purchasers of Star Scientific publicly traded securities by misrepresenting the Company's business and prospects. Later, when the defendants' prior misrepresentations and fraudulent conduct became apparent to the market, the prices of Star Scientific publicly traded securities fell precipitously, as the prior artificial inflation came out of the prices over time. As a result of their purchases of Star Scientific publicly traded securities during the Class Period, plaintiff and other members of the Class suffered economic loss, *i.e.*, damages, under the federal securities laws.

### **NO SAFE HARBOR**

50. Star Scientific's verbal "Safe Harbor" warnings accompanying its oral forward-looking statements ("FLS") issued during the Class Period were ineffective to shield those statements from liability.

51. The defendants are also liable for any false or misleading FLS pleaded because, at the time each FLS was made, the speaker knew the FLS was false or misleading and the FLS was authorized and/or approved by an executive officer of Star Scientific who knew that the FLS was false. None of the historic or present tense statements made by defendants were assumptions underlying or relating to any plan, projection or statement of future economic performance, as they were not stated to be such assumptions underlying or relating to any projection or statement of future economic performance when made, nor were any of the projections or forecasts made by defendants expressly related to or stated to be dependent on those historic or present tense statements when made.

### **CLASS ACTION ALLEGATIONS**

52. Plaintiff brings this action as a class action pursuant to Rule 23 of the Federal Rules of Civil Procedure on behalf of all persons who purchased or otherwise acquired Star Scientific publicly traded securities during the Class Period (the "Class"). Excluded from the Class are defendants and their families, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which defendants have or had a controlling interest.

53. The members of the Class are so numerous that joinder of all members is impracticable. The disposition of their claims in a class action will provide substantial benefits to the parties and the Court. Star Scientific has over 166.4 million shares of stock outstanding, owned by hundreds if not thousands of persons.

54. There is a well-defined community of interest in the questions of law and fact involved in this case. Questions of law and fact common to the members of the Class which predominate over questions which may affect individual Class members include:

- (a) whether the 1934 Act was violated by defendants;
- (b) whether defendants omitted and/or misrepresented material facts;
- (c) whether defendants' statements omitted material facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading;
- (d) whether defendants knew or deliberately disregarded that their statements were false and misleading;
- (e) whether the prices of Star Scientific publicly traded securities were artificially inflated; and
- (f) the extent of damage sustained by Class members and the appropriate measure of damages.

55. Plaintiff's claims are typical of those of the Class because plaintiff and the Class sustained damages from defendants' wrongful conduct.

56. Plaintiff will adequately protect the interests of the Class and has retained counsel who are experienced in class action securities litigation. Plaintiff has no interests which conflict with those of the Class.

57. A class action is superior to other available methods for the fair and efficient adjudication of this controversy.

58. Plaintiff makes the allegations herein based upon the investigation of plaintiff's counsel, which included a review of regulatory filings made by Star Scientific with the SEC, as well as other regulatory filings and reports, securities analysts' reports and advisories about the Company, press releases and other public statements issued by the Company, and media reports about the

Company. Plaintiff believes that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

### **COUNT I**

#### **For Violation of §10(b) of the 1934 Act and Rule 10b-5 Against All Defendants**

59. Plaintiff incorporates ¶¶1-58 by reference.

60. During the Class Period, defendants disseminated or approved the false statements specified above, which they knew or deliberately disregarded were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

61. Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they:

- (a) employed devices, schemes and artifices to defraud;
- (b) made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or
- (c) engaged in acts, practices and a course of business that operated as a fraud or deceit upon plaintiff and others similarly situated in connection with their purchases of Star Scientific publicly traded securities during the Class Period.

62. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for Star Scientific publicly traded securities. Plaintiff and the Class would not have purchased Star Scientific publicly traded securities at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by defendants' misleading statements.

**COUNT II**

**For Violation of §20(a) of the 1934 Act  
Against All Defendants**

63. Plaintiff incorporates ¶¶1-62 by reference.

64. The Individual Defendants acted as controlling persons of Star Scientific within the meaning of §20(a) of the 1934 Act. By virtue of their positions with the Company, and ownership of Star Scientific stock, the Individual Defendants had the power and authority to cause Star Scientific to engage in the wrongful conduct complained of herein. Star Scientific controlled the Individual Defendants and all of its employees. By reason of such conduct, defendants are liable pursuant to §20(a) of the 1934 Act.

**PRAYER FOR RELIEF**

WHEREFORE, plaintiff prays for judgment as follows:

- A. Determining that this action is a proper class action, designating plaintiff as Lead Plaintiff and certifying plaintiff as a class representative under Rule 23 of the Federal Rules of Civil Procedure and plaintiff's counsel as Lead Counsel;
- B. Awarding plaintiff and the members of the Class damages, including interest;
- C. Awarding plaintiff's reasonable costs and attorneys' fees; and
- D. Awarding such equitable/injunctive or other relief as the Court may deem just and proper.

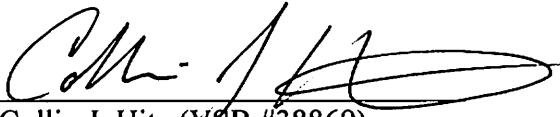
**JURY DEMAND**

Plaintiff demands a trial by jury.

Respectfully submitted,

MARTY COLE

By Counsel

A handwritten signature in black ink, appearing to read 'Collin J. Hite', with a large, stylized flourish at the end.

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